



Presentation on

Roles and Responsibilities of Investment Advisors

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What is an Investment Advisor

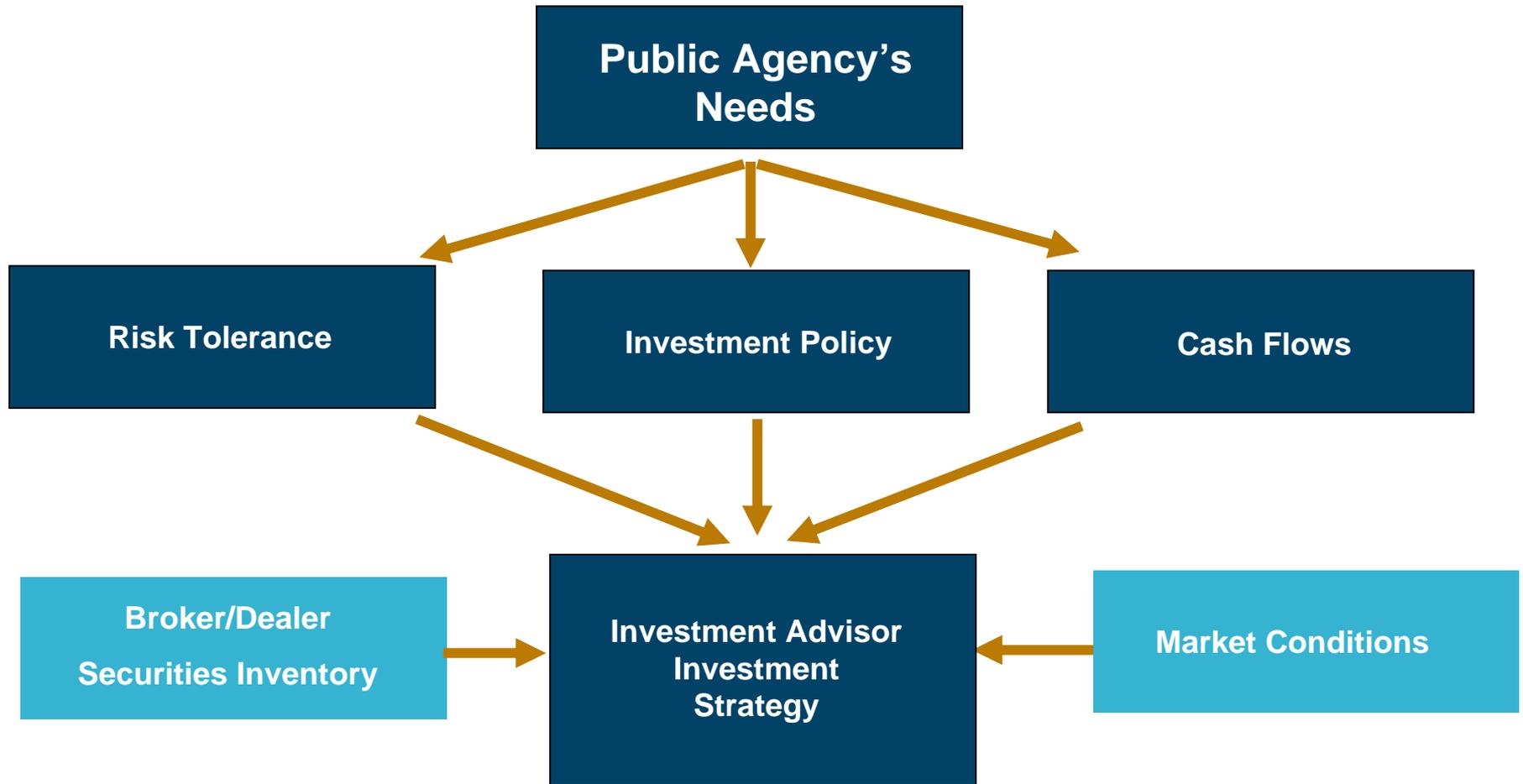
An Investment Advisor is:

- Registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940
- Experience in actively managing public assets to improve performance and reduce risk
- An independent source of information and guidance on both individual securities and markets in general
- Fee based, not transaction based, to avoid any conflicts of interest

How do Advisors Work

- Non-discretionary Relationship
 - All trades approved prior to completion
 - Finance staff fully involved in strategy and investment process
 - Requires more staff time
 - Can affect performance if staff is unavailable
- Discretionary Relationship
 - Uses Investment Policy as basis for portfolio investing
 - Finance staff must rely more on advisor, less informed
 - Requires less staff time
 - Can have better performance

Flow of Information



Do Advisors Add Value or Cost?

- Every advisor will add cost
 - Usually less than 10 basis points on assets under management (10/100 of a percent)
- Separate third-party custodians used
 - Cost is usually less than 1 basis point of assets under management
 - Provides safekeeping of assets, independent pricing
- Financial Decision
 - Does the additional cost add enough value to pay for the service?

How do Investment Advisors Add Value?

- Access to Markets
 - Help in negotiations
 - Provide market information and buying power
 - Affords greater access to inventory
- Competitive Bidding
 - Broker is the counterparty to the negotiation
- Analytic Tools
 - Historic spread analysis measures relative value
 - Option adjusted spread analysis used for callable securities
 - Breakeven forward curve analysis helps determine which part of the yield curve has the most value.

How do Investment Advisors Add Value?

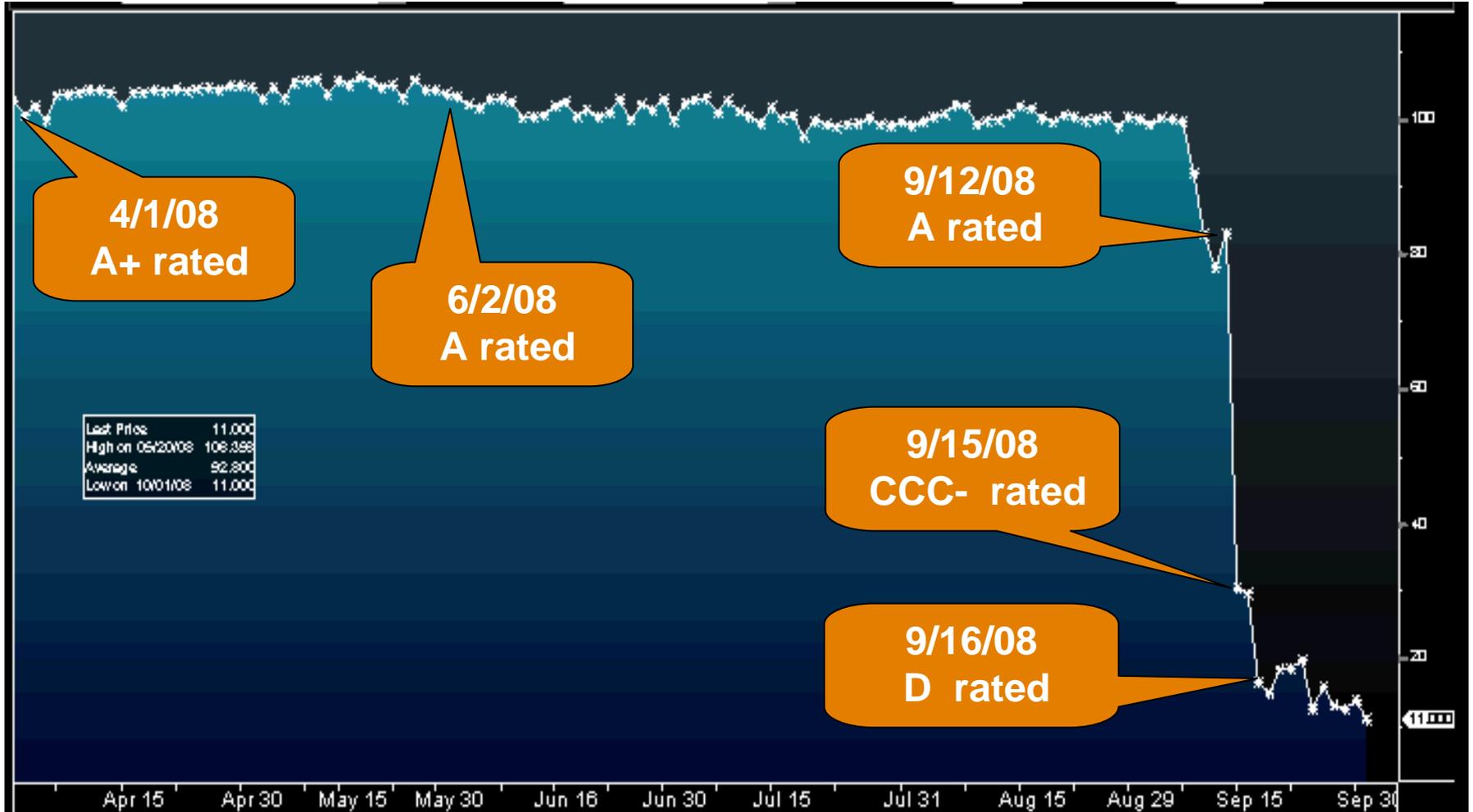
- Credit Analysis
 - Fundamental internal credit analysis provided by credit analysts
 - Extensive risk monitor system continually evaluates credits
- Experienced Portfolio Managers
 - Utilize professional credentials (Chartered Financial Analysts (CFA))
 - Years of fixed income and public investing knowledge drawn upon
- Active Management
 - Duration and yield curve management used
 - Sectors analyzed
 - Securities evaluated

How do Investment Advisors Add Value?

- Portfolio Compliance
 - Monitor and report on compliance with policy
 - Comply with State Code
 - Comply with prudent investor guidelines
- Performance Reporting
 - Comply with GASB
 - Comply with state code
 - Calculate amortized cost performance
 - Calculate total return performance
- Customized Portfolio
 - Unique cash flows developed, unique risk tolerances analyzed, unique policies used for guidance

Practical Example – credit analysis

Lehman MTN 7 7/8% of August 2010



Practical Example – Security Selection

Report Date: 12/31/07

Issuer / Security	Coupon	Maturity Date	Call Date	Acquisition Cost	Days to Final	Days to Call	YTM Purchase Y	Wtd. Avg. Maturity to Final	Wtd. Avg. Maturity Call	Weighted Average Yield
FHLB	3.100%	01/08/08		1,000,000.00	8		3.100%	0.86	0.86	0.334%
FHLMC	4.890%	02/01/08		429,959.00	32		5.000%	1.48	1.48	0.232%
FHLB-Called	4.570%	04/29/08	01/29/08	359,507.00	120	29	5.000%	4.65	1.12	0.194%
FHLB	5.000%	06/27/08		125,000.00	179		5.000%	2.41	2.41	0.067%
FNMA	3.250%	08/15/08		371,528.00	228		3.000%	9.13	9.13	0.120%
FHLB-Called	4.600%	08/22/08	02/05/08	374,415.00	235		4.850%	9.49	9.49	0.196%
FHLB	4.010%	09/17/08	03/17/08	347,995.00	261		4.860%	9.79	9.79	0.182%
FHLB	4.570%	10/17/08		349,839.00	291		4.630%	10.98	10.98	0.175%
FHLB	4.100%	11/26/08	02/26/08	348,218.00	331		4.700%	12.43	12.43	0.176%
FNMA	4.550%	12/01/08	06/01/08	431,669.00	336	153	4.900%	15.64	7.12	0.228%
FHLB-Called	5.000%	01/02/09	01/02/08	430,461.00	368	2	4.880%	17.08	0.09	0.227%
FNMA-Called	4.100%	02/13/09	02/04/08	399,827.00	410	35	4.850%	17.68	1.51	0.209%
FHLB	4.000%	02/23/09	02/04/08	357,265.00	420	35	4.700%	16.18	1.35	0.181%
FHLB-Called	4.660%	04/13/09	01/16/08	369,290.00	469	16	4.810%	18.68	0.64	0.192%
FFCB-Called	4.300%	06/09/09	01/25/08	303,205.00	526	25	4.730%	17.20	0.82	0.155%
FHLB-Called	4.550%	07/14/09	01/28/08	209,365.00	561	28	4.760%	12.67	0.63	0.107%
FHLB-Called	4.520%	08/26/09	01/28/08	119,538.00	604	28	4.770%	7.79	0.36	0.061%
FHLMC-Called	4.500%	08/10/09	01/10/08	349,962.00	588	10	5.150%	22.19	0.38	0.194%
FHLMC-Called	4.500%	08/10/09	01/10/08	159,982.00	588	10	5.150%	10.14	0.17	0.089%
FHLB	4.280%	09/08/09	03/08/08	198,486.00	617	68	4.760%	13.21	1.46	0.102%
FNMA-Called	4.500%	09/30/09	01/22/08	443,103.00	639	22	4.760%	30.53	1.05	0.227%
FHLMC-Called	4.130%	10/09/09	01/30/08	291,661.00	648	30	4.800%	20.38	0.94	0.151%
FFCB-Called	4.500%	11/13/09	02/01/08	1,404,513.00	683	32	4.320%	103.44	4.85	0.654%
FFCB-Called	4.300%	11/18/09	02/01/08	98,985.00	688	32	4.880%	7.34	0.34	0.052%
Totals				\$ 9,273,773.00				391.37	79.41	4.507%

Role of an Investment Advisor

- Total portfolio – analyze the entire portfolio as a whole, not just each transaction
- Best execution - obtain the best securities for the portfolio at the best price
- Resources - provide the public employee with the responsibility the tools, and the resources they need to do his/her job effectively
- Manage Risk/Return Tradeoff - balance the portfolios return and the portfolio's risk. Better performance is usually obtained though better risk management.